

Office of the State Auditor
Division of State Audit

Lake Region State College
Devils Lake, North Dakota

Audit Report for the
Biennium Ended June 30, 2007
Client Code 22800

Robert R. Peterson
State Auditor



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Transmittal Letter

May 14, 2008

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Dr. Sharon Etemad, President, Lake Region State College

We are pleased to submit this audit of Lake Region State College for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Robyn Hoffmann, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President Etemad and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

Lake Region State College was founded in the fall of 1941 as an extension of the public school program of Devils Lake, North Dakota. The college developed gradually over the next two decades into a small, rural, junior college with a liberal arts curriculum, supplemented by a few business programs.

Beginning in 1960, the college began to introduce a wide variety of vocational, technical, and career-orientated programs designed to respond to changing regional economic needs. Simultaneously, the college preparatory program was strengthened to meet standards acceptable for transfer to baccalaureate degree programs in four-year colleges and universities.

Rapid increases in enrollment created the need for a building program and the college moved to its present campus in 1966 – a one-story, two building complex. Since then there have been several additions to the original structures.

More information may be obtained from Lake Region State College's website located at: <http://www.lrsc.nodak.edu>.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. What type of opinion was issued on the financial statements?

Unqualified.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

There were no findings or recommendations in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 15 of this report, along with management's response.

LAFRC AUDIT COMMUNICATIONS

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no contingent liabilities were identified or significant unusual transactions. Lake Region State College has one related party the Lake Region Community College Foundation. The President, Vice President for Student Services, and the Vice President for Administrative Services serve on the board of directors.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by the Lake Region State College include: useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the useful lives and allowances in determining that they are reasonable in relation to the financial statements taken as a whole.

3. Identify any significant audit adjustments.

In our fiscal years 2007 and 2006 North Dakota University System audit reports, all of the material adjustments we proposed for Lake Region State College were recorded. See Posted Audit Adjustments 9, 10, and 12 on pages 23 and 24 of the 2007 North Dakota University System audit report and Posted Audit Adjustment 5 on page 16 of the 2006 report.

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.

None.

5. Identify any serious difficulties encountered in performing the audit.

None.

6. Identify any major issues discussed with management prior to retention.

This is not applicable for audits conducted by the Office of the State Auditor.

7. Identify any management consultations with other accountants about auditing and accounting matters.

None.

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.

ConnectND Finance, Human Resource Management System (HRMS), and Student Administration are high-risk information technology systems critical to Lake Region State College. We noted no exceptions directly related to or caused by the operations of an information technology system.

Background Information

Lake Region State College strives to be responsive to the distinctive educational needs in the immediate service area and the state of North Dakota. The college is committed to maintaining equal access for all residents through an open admission policy and guidance and counseling services. It recognizes that both the individual and society benefit from development of mental, aesthetic, social, and physical abilities.

The major function of the college is to enable students to establish and attain realistic and satisfying goals in a changing world economy. The college dedicates itself to providing opportunities for rational and creative thinking, interaction which tests ideas and theories, stimulation for continued growth, acquisition of knowledge and competencies, and activities which foster intellectual, social, and recreational development. The college strives to support economic development initiatives through technology transfer and enhancement of labor force skills.

The college is committed to the following mission:

- To provide academic transfer courses and programs that parallel those offered during the first two years at baccalaureate-granting institutions;
- To provide vocational and technical programs designed to prepare learners for an immediate career in a specific occupation;
- To provide outreach educational opportunities for individuals who are time and/or place-bound;
- To provide continuing and life-long education in the form of renewed cultural, educational, occupational, social, athletic, and vocational programs, courses, workshops, seminars, and institutes; and
- To develop linkages with business and industry, to support quality instruction, and to encourage economic development through technology transfer and entrepreneur training.

More information can be obtained from Lake Region State College's home page at: <http://www.lrsc.nodak.edu>.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of Lake Region State College for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of Lake Region State College's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to Lake Region State College and are they in compliance with these laws?
3. Are there areas of Lake Region State College's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Lake Region State College for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared condensed financial statements from the data used in the North Dakota University System's financial statement audits and developed a discussion and analysis of the financial statements.
- Tested and analyzed samples of expenses, direct general ledger transactions (ONL's), and receipts.
- Performed detailed analytical procedures related to statement of net asset items, revenue and expenses, and statement of cash flow items.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed Lake Region State College written plans and applicable manuals.
- Observed Lake Region State College's processes and procedures.
- Reviewed applicable sections in the North Dakota Century Code (NDCC), North Dakota Constitution, and appropriate session laws.
- Reviewed applicable meeting minutes.

Discussion And Analysis

The accompanying financial statements do not have the disclosures required by generally accepted accounting principles (GAAP) and have been prepared in a condensed form to present Lake Region State College's financial position and the results of operations in a manner similar to that used for financial reporting in the private sector. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles.

For the biennium ended June 30, 2007, operations of Lake Region State College were primarily supported by appropriations from student tuition and fees (31%), the state's general fund (31%), federal grants and contracts (14%), and auxiliary enterprises (10%). This is supplemented by state and local grants, sales and services of educational departments, gifts, and state appropriation for capital assets.

FINANCIAL SUMMARY

Operating revenues consisted primarily of student tuition and fees, as well as federal and state grants and contracts and auxiliary enterprises. Nonoperating revenues during the audited period included state appropriations, capital grants, and gifts. These revenues remained fairly consistent between fiscal years 2007 and 2006. Total revenues were \$9,551,389 for the year ended June 30, 2007 as compared to \$9,468,754 for the year ended June 30, 2006.

Total expenses for Lake Region State College were \$9,358,538 for the year ended June 30, 2007 as compared to \$9,118,686 for the prior year. The increase in expenses is mainly due to salary and wage increases approved by the board of higher education.

ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENSES

Lake Region State College had no significant variances for the general fund expenses as reflected on the statement of appropriations.

Financial Statements

STATEMENT OF NET ASSETS

	June 30, 2007	June 30, 2006
ASSETS		
Cash and cash equivalents	\$ 3,070,392	\$ 2,710,170
Investments	105,000	105,000
Accounts receivable, net	389,941	508,028
Due from state general fund		99,007
Grants and contracts receivables, net	312,533	325,204
Inventories	161,928	139,269
Notes receivable, net	460,196	453,779
Other assets	3,188	7,798
Capital assets, net	4,324,812	4,574,924
Total assets	\$ 8,827,990	\$ 8,923,179
LIABILITIES		
Accounts payable	\$ 142,943	\$ 237,990
Accrued payroll	294,368	283,308
Deferred revenue	209,761	258,587
Deposits	113,190	151,131
Due to others	1,873,862	1,991,148
Total liabilities	\$ 2,634,124	\$ 2,922,164
NET ASSETS		
Invested in capital assets, net of related debt	\$ 2,720,343	\$ 2,823,613
Restricted for:		
Expendable:		
Scholarships and fellowships		(47)
Research	248,756	399,948
Instructional department uses		7,133
Loans	478,746	485,879
Debt service	146,255	264,023
Unrestricted	2,599,766	2,020,466
Total net assets	\$ 6,193,866	\$ 6,001,015

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	June 30, 2007	June 30, 2006
OPERATING REVENUES		
Student tuition and fees	\$ 3,158,542	\$ 2,745,560
Federal grants and contracts	1,275,498	1,371,310
State and local grants and contracts	321,530	711,361
Nongovernmental grants and contracts	25,400	
Sales and services of educational departments	133,292	206,042
Auxiliary enterprises	1,007,458	979,931
Other	6,493	7,533
Total operating revenues	<u>\$ 5,928,213</u>	<u>\$ 6,021,737</u>
OPERATING EXPENSES		
Salaries and wages	\$ 5,744,636	\$ 5,393,034
Operating expenses	2,065,071	2,140,840
Data processing	178,624	184,741
Depreciation	458,939	466,843
Scholarships and fellowships	402,168	429,592
Cost of sales and services	430,400	425,528
Total operating expenses	<u>\$ 9,279,838</u>	<u>\$ 9,040,578</u>
Operating loss	<u>\$ (3,351,625)</u>	<u>\$ (3,018,841)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 3,053,872	\$ 2,752,524
Gifts	380,417	422,806
Investments income	35,770	29,259
Interest on capital asset-related debt	(78,700)	(78,108)
Other nonoperating revenues	18	
Net nonoperating revenues	<u>\$ 3,391,377</u>	<u>\$ 3,126,481</u>
Income before capital grants, gifts, and transfers	<u>\$ 39,752</u>	<u>\$ 107,640</u>
State appropriations-capital assets	\$ 145,109	\$ 242,428
Capital grants and gifts	7,990	
Total other revenue	<u>\$ 153,099</u>	<u>\$ 242,428</u>
Increase in net assets	<u>\$ 192,851</u>	<u>\$ 350,068</u>
NET ASSETS		
Net Assets-beginning of the year	6,001,015	5,650,947
Net Assets-end of the year	<u>\$ 6,193,866</u>	<u>\$ 6,001,015</u>

STATEMENT OF CASH FLOWS

	June 30, 2007	June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 3,166,605	\$ 2,768,295
Grants and contracts	1,635,099	2,126,759
Payments to suppliers	(2,760,097)	(2,667,357)
Payments to employees	(5,704,020)	(5,429,721)
Payments for scholarships and fellowships	(402,168)	(429,592)
Loans issued to students	(116,464)	(121,200)
Collection of loans to students	86,167	93,427
Auxiliary enterprise charges	1,007,921	1,016,929
Sales and service of educational departments	133,292	217,612
Cash paid on deposits	(7,345)	(29,200)
Other receipts	11,107	4,448
Net cash used by operating activities	<u>\$ (2,949,903)</u>	<u>\$ (2,449,600)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 3,053,872	\$ 2,752,524
Grants and gifts received for other than capital purposes	380,417	422,806
Agency fund cash (decrease) increase	22,304	(109,762)
Other nonoperating revenue (expenses)	20	(3,259)
Net cash flows provided by noncapital financing activities	<u>\$ 3,456,613</u>	<u>\$ 3,062,309</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	\$ 244,116	\$ 143,421
Capital grants and gifts received	7,998	1,286
Purchases of capital assets	(208,829)	(608,503)
Principal paid on capital debt and lease	(146,843)	(130,316)
Interest paid on capital debt and lease	(78,700)	(78,108)
Net cash used by capital and related financing activities	<u>\$ (182,258)</u>	<u>\$ (672,220)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	\$ 35,770	\$ 29,258
Net cash provided by investing activities	<u>\$ 35,770</u>	<u>\$ 29,258</u>
Net increase (decrease) in cash	360,222	(30,253)
CASH - BEGINNING OF YEAR	2,710,170	2,740,423
CASH - END OF YEAR	<u>\$ 3,070,392</u>	<u>\$ 2,710,170</u>

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NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating loss	\$ (3,351,625)	\$ (3,018,841)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	458,939	466,843
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	62,855	(39,809)
Grant & contract receivables	12,671	44,088
Inventories	(22,659)	14,244
Notes receivable	(6,417)	12,262
Other assets	4,614	(3,085)
Accounts payable and accrued liabilities adjusted for interest payable	(92,727)	23,996
Accrued payroll	11,060	(57,161)
Compensated absences	29,556	20,474
Deferred revenue	(48,826)	116,589
Deposits	(7,344)	(29,200)
Net cash used by operating activities	<u>\$ (2,949,903)</u>	<u>\$ (2,449,600)</u>

STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

Expenses by line item:	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating expenses	\$ 5,389,989	\$ 416,077	\$ 5,806,066	\$ 5,806,066	
Capital assets	387,537		387,537	387,537	
Capital assets - off system		354,289	354,289	308,210	\$ 46,079
Totals	\$ 5,777,526	\$ 770,366	\$ 6,547,892	\$ 6,501,813	\$ 46,079

Expenses by source:					
General fund	\$ 5,777,526	\$ 416,077	\$ 6,193,603	\$ 6,193,603	
Special fund		354,289	354,289	308,210	\$ 46,079
Totals	\$ 5,777,526	\$ 770,366	\$ 6,547,892	\$ 6,501,813	\$ 46,079

Appropriation Adjustments:

Operating expenses

The \$416,077 adjustment is comprised of the following:

- \$400,000 is equity pool allocation pursuant to Senate Bill 2003 section 9 of the 2005 session laws;
- \$16,077 is a transfer from the NDUS contingency fund for disabled student services pursuant to Senate Bill 2003 section 8 of the 2005 session laws.

Capital assets - carryover

The \$354,289 adjustment is for the North Hall renovation project that was approved a prior biennium and the authority was carried to this biennium.

Internal Control

In our audit for the biennium ended June 30, 2007, we identified the following areas of Lake Region State College's internal control as being the most important:

Internal Controls Subjected To Testing

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with laws and legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded internal control was adequate. Our consideration of internal control would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements that would be material may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control that we have reported to management of Lake Region State College in a management letter dated May 14, 2008. See page 15 for management letter.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2007, we identified and tested Lake Region State College's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Article X, Section 12 of the North Dakota Constitution and Attorney General's opinion dated September 11, 1987).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Deposit and expenses of gifts to a state institution (Article IX, Section 1 of the North Dakota Constitution; Attorney General's opinion dated September 13, 1963; NDCC 1-08-02, 08-04, 15-10-12, 15-67-01, 15-67-04, 15-67-05 and 15-67-07).
- Fixed asset requirements including record keeping, lease and financing arrangements in budget requests, and lease analysis requirements (NDCC 54-44.1-06, 54-27-21 and 54-27-21.1).
- Inventory records (NDCC 44-04-07).
- Expenses including proper voucher approvals (NDCC 44-08-05.1 and Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Article X, Section 12 of North Dakota Constitution and Attorney General's opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1-.5, and 44-08-04.3 and 54-06-09 parts 1a, 1b, 3, 4, 5, 6).
- Purchasing including bidding (NDCC 54-44.4-01, 54-44.4-05, 54-44.4-06, 54-44.7-02, 54-44.4-02, 44-08-01 and 48-01.1-03).
- Conflict of Interest (NDCC 12.1-13-03 and 48-02-12).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-04, 47-30.1-02.1, 47-30.1-03.1 and 47-30.1-05).
- Nepotism (NDCC 44-04-09).
- Bond Revenues and Reserves (NDCC 15-55-03 and 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Management Letter (Informal Recommendations)

May 14, 2008

Mr. Corry Kenner
Vice President of Administrative Services
Lake Region State College
1801 North College Drive
Devils Lake, ND 58301

Dear Mr. Kenner:

We have performed an audit of Lake Region State College for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of Lake Region State College's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of state, private, or federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

Use, Transfer, and Disposal of Public Property

Informal Recommendation 07-1:

Lake Region State College has adopted SBHE policies, and SBHE policies do not contain a policy prohibiting the disposal, use, or transfer of (any) public property in an unauthorized manner; although, there are policies about the disposal or transfer of real property and the use of state vehicles. Also, there is no policy that requires written approval and acknowledgement of responsibilities before any equipment can leave the campus.

We recommend Lake Region State College create and implement policies and procedures regarding the proper disposal, use, and transfer of public property; as well as, create and implement policies and procedures requiring written approval and acknowledgement of responsibilities before any equipment can leave the campus.

Lake Region State College Response:

Lake Region State College agrees and will develop and implement the required policies and procedures regarding disposal, use, and transfer of public property and for the written approval and acknowledgement of responsibilities for equipment prior to removal from campus.

Petty and Till Cash Funds Approval

Informal Recommendation 07-2:

We noted Lake Region State College had several petty and till cash funds on the general ledger that did not have approval from the State Auditor's Office.

We recommend that Lake Region State College obtain the state auditor's approval for all petty and till cash funds.

Lake Region State College Response:

Lake Region State College agrees and will review the existing petty and till cash funds and will either discontinue the fund if no longer needed or will request the state auditor's approval for those funds that are still valid for operational necessity.

I encourage you to call me (701) 239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

John Grettum, CPA
Audit Manager